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STRUCTURES AND MANAGEMENT OF STATE TRADING ORGANIZATIONS

Issues of reform and re-structuring of STO's

I. INTRODUCTION

The dire economic crisis and the demanding neo-liberal classical structural adjustment programmes (1) have compelled African states to carry out bold development policy changes. Government withdrawal from the trading sector of the economies is on in many countries through privatization and dismantling of public entreprises in general and state trading corporations in particular. However, current experiences in this have revealed the limits of neo-liberal reforms. In many cases, unfair international competition has brought to an end operations of many productive structures. Speculative import-distribution activities have further paralyzed the existence of many local firms.

Lockout of factories and bankruptcies have increased unemployment and poverty as well as other related social strifes (malnutrition, hunger, social conflicts, banditism, environment degradation etc.).

This worrying situation was instrumental in Africa's reaction to the traditional structural adjustment programmes. The African countries have consequently adopted the African Framework for structural adjustment Programmes (AFSAP) during the ECA Conference of Ministers held in Addis Ababa, Ethiopia from 27 March to 7 April 1989. In brief, African countries have called for the matching of short term objectives of current structural adjustment programmes (too exclusively focused on achieving financial balances) with medium and long term development objectives which constitute for growth and the progressive tackling of social strifes triggered off by adjustment programmes. One point on which the traditional structural adjustment approach broadens on these economic reforms has also agreed is that privatization and/or liquidation of public entreprises of the trading sector are not panacea. That is not yet for government withdrawal from the trading sector because most African business classes are not yet in a position to take over. African states are therefore urged to adopt and carry out re-structuring and reform plans for the improvement of the structures and the functioning of public entreprises in general and SEO's in particular.

This alternative is only envisageable if efforts are analysed to carry out objective and exhaustive analysis of the structures and operational procedures of these entreprises with a view to rationalize and re-structuring them.

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(1) Mostly imposed by the World Bank and the IMF.

In this report, we undertake a broad study of the structural and functional characteristics of African STO's based on the findings of consultants' field investigation carried out within the framework of project RAF 80/012/A/01/31 "Selective Regional Training of STO personnel for the development and management of STO's in African countries south of the Sahara".

The second part of this report is an attempt to reflect on the structuring and reform of STO's and opportunities they might offer for the promotion of entrepreneurship. Our position is that changes in public enterprises, the restructuring of such enterprises and even their dismantling ought to be opportunities for the creation of other types of businesses which would be able to sustain and reinforce the trade activities of countries carrying them out to mitigate social scrifos deriving from structural adjustment programmes.

CHAPTER II

African STO's. Characteristics, missions and objectives

A. Characteristics of African State Trading Organizations (STOs)

1. Definitions. STOs are a subgroup of State enterprises. If they are defined as trading organizations there would be no difference between them and State production organizations because the latter also have a trading function. It is the exclusively marketing function which makes STOs special. STOs are exlusively trading organizations. They are either external trading companies or distribution companies that handle domestic trade. The definition of STOs as exclusively external trading organizations given by some authors is not satisfactory to the author of this paper 2/ there is no clear demarcation line in African countries between importing enterprises and distribution companies and not only is there often an extension of the activities of the former by the latter but in African border areas distribution companies contract, ans itself themselves, trading operations with the neighbouring country or countries. The only criterion which should be considered seems therefore to be the overwhelming presence of the State in the enterprises. If this was accepted, mixed corporations where the State is the main shareholder should also be included in this definition.

2. Types of African STOs

African STOs include agricultural marketing boards, import-export companies, national trading companies, government trading agencies or mixed corporations in the form of cooperative agencies etc.

2/ See Proxy Purchases in State Trading and Development, ICPE, 1982.

(a) Agricultural or trade marketing boards

This is the oldest form of African SPO. Such boards are often a carry over from the colonial period and have served as direct intervention tools of the state in collecting and marketing major agricultural export produce. All African countries have several of these SPOs which handle one or several products such as coffee, cocoa, tea and cotton.

Apart from collecting, transporting and marketing such raw materials, these marketing boards have acted often as intermediaries in distributing agricultural inputs such as machines, fertilizers, fungicides and seeds, they are also responsible for storing grains and assist the State in fixing producer prices and preparing marketing policies. They invest downstream in processing industries such as oil mills, flour mills and roasting industries.

The main activity of such boards is export but they could also have a local distribution (foodstuffs marketing boards) and collection network. The current trend is to replace this network by farmers' cooperatives and/or private agents who receive commissions which exempt them from the traditional duties of sizing, stocking, weighing and storage.

Such boards are nearly always financed by development banks and, when they import, their supplier credits are guaranteed by the State. Except in rare cases (Senegal, Nigeria) the current wave of privatization does not affect such boards. Many of these companies, however, have real management problems and add very considerably to the external indebtedness of African countries. They are typical examples of institutions that mix the objectives of trading companies with those of political and social institutions; this leads to overstaffing, real-type, the establishment of many decision-making bodies within and outside the board, the embezzlement of public property and nepotism in the appointment of the management staff of the enterprise.

(b) International trading companies

This category covers all the other state trading organizations dealing with imports and/or exports of any other goods outside strategic raw materials. a/

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a/ Major agricultural products which generally cover the bulk of exports of the countries (more than 50 per cent) or imports (essential foodstuffs, for example rice in Senegal.

There are export import enterprises in several African countries under various names and they deal with quite a wide range of products (particularly, imported products) from foodstuffs, textiles, clothing, chemicals to spare parts, capital goods and building materials (the range of products imported by the Ethiopian Import-Export Corporation covers more than 50 types of articles 90 of which are monopolies). Such enterprises are of relatively recent creation and they were generally established to meet a growing demand that existing trading corporations were no longer able to meet either because they had not been able to anticipate such demand or because projected investment had been inadequate. It is therefore, not correct to say that the State in this particular case established the enterprise in order to compete with the private sector. The turnover of such companies could sometimes be over 100 million United States dollars and the import monopolies that they are granted cover as many products. They often act as wholesale importers responsible for supplying private agents or state distribution corporations. However, in some countries, the same corporation is responsible for both imports and local retail distribution which is the case of OFNACOM in the Congo and SOMIEX in Mali. The export function of such corporations is limited by the restricted range of non-traditional export products of African countries.

In some countries, the organizational structures of such import-export corporations become relatively highly sophisticated with enterprises and departments specializing in specific product lines.

Some countries such as Ghana (Ghana National Trading Company, GNTC) have another type of import distribution corporation. Such corporations are often set up to streamline marketing channels and consolidate demands in order to strengthen the competitiveness of indigenous traders who are its local distributors. They sometimes act as middlemen between international import-export trading corporations and redistributors in which case they act as wholesalers dealing in smaller quantities at the national level (this is what happens in Tanzania).

The Zambian and Tanzanian firms INDECO, NIECO and BIT are rather special cases, they are more holding companies than trading companies in that they merely control several specialized trading corporations such as the Consumer Buying Corporation of Zambia, INDECO (ORESON), Mwisoni Stores, the National Drug Company, the National Import-Export Corporation, Zambezi Trading Company and BOK. Similarly, the Zambia Industrial and Mining Corporation (ZIMCO) controls, among others, the National Import and Export Corporation (NIEC) which in turn has subsidiaries.

1/ Major agricultural products which generally cover the bulk of exports of the countries (more than 60 per cent) or imported essential foodstuffs, for example rice in Senegal.

(c) [illegible] supply [illegible]

In French-speaking African countries such [illegible] are called 'Direction du matériel' and in English-speaking countries, departmental [illegible] agencies their role is to supply ministry departments. They purchase equipment strictly for the needs of government departments either directly or through the state trading corporations.

3. Analysis of the operational structures, policies and objectives of the SOEs of six African countries

It is very difficult to define the real objectives of African public organizations. Indeed, there is a certain duality in the definition of the objectives of African SOEs. There are the stated objectives or institutional objectives and those that are clearly stipulated in the specifications or charter of the enterprise. Such objectives are offset by those that the State assigns implicitly to the public enterprise depending on circumstances. Other objectives are quantitative matters that have to take into account the commercial nature of the business and its ability to generate resources in the same manner as private firms. Development objectives are rather qualitative. SOEs have to reconcile objectives of commercial efficiency with social objectives and this is where most of their problems in criticisms against them stem from. This makes it difficult to assess their actual performance. While SOEs are required to make profits they are also required to provide jobs at levels that are sometimes inconsistent with their profitability and to fix prices that have no relationship to market conditions whatsoever.

A set of explicit objectives centrally allocated to many SOEs of African SOEs has evolved from this patchwork of theories. 4/

African SOEs should:

(i) Promote the self reliance of the country in certain sectors and sub-sectors;

(ii) Provide the necessary infrastructure facilities for a country's balanced and diversified economic structure;

(iii) Reduce regional disparities in development;

(iv) Allocate the scarce country's resources efficiently;

4/ See in this respect J.H. Childish, Third World Countries and Development Options, Oxford, Vikas, 1980.

See also Synopsis of State Trading Organizations (STOs) Activities in Africa E/ECA/TRADE/WP.1.

(v) Prevent the concentration of economic power in the hands of a few individuals;

(vi) Help to create jobs and raise productivity;

(vii) Maintain social control over trade and industry in order to ensure equitable distribution of goods and services between the urban and rural areas.

Translated into explicit commercial terms, such objectives require SMOs to promote exports and control the importation of strategic products, streamline imports and bring down their costs while guaranteeing regular supplies, streamline current marketing channels to create channels more likely to meet the needs of the people in the urban and rural areas, increase turnover by generating jobs, make profits and reinvest them usefully. Let us now see how these general objectives are reflected in the objectives, trade policies and operational policies of SMOs of various African countries.

(a) Analysis of the tasks, policies and operational structures of African SMOs

In French-speaking African countries in general and in Senegal, Mali, Benin and the Congo in particular there are two types of SMOs

(i) SMOs under the total control of the state which is the sole shareholder (OFNACOM in the Congo, ONC in Burundi etc.);

(ii) Mixed corporations in which the bulk of shares is held by the state and the rest by private national or foreign commercial partners (SONADIS in Senegal, SONIDA in the Niger, COPRO-Niger etc.).

The tasks assigned to these two types of corporations are generally the same as they state marketing policies for corporations with several shareholders. They have to:

(i) Supply goods to cover the requirements of the country in line with the priorities established by the State;

(ii) Improve the trade balance;

(iii) Help to brake inflation by acting as a price regulatory mechanism;

(iv) Control the bulk of exports and streamline imports.

Agricultural produce collection and marketing operations including exports thereof are generally carried out by cereals, state monopolies whose activities are supported by co-operatives as in Senegal or private sector middlemen as in the case of Mali.

The marketing of non-traditional export products on the import of manufactured and semi-manufactured goods and current consumer goods are often the responsibility of mixed import-export corporations set up sometimes under the total control of the state (OPACO, Congo). Such organizations either have integrated marketing channels or operate in such fields as private re-distributors (SOGEBAS, Senegal).

Nigeria

Apart from the state marketing boards that export all the certain raw materials such as cocoa, groundnuts, cotton, palm oil and palm kernel oil, rubber, grains, and others, Nigeria has only one well-known import-export STO, the Nigerian National Supply Company Limited (NNSC).

The only Nigerian Government state monopoly is the petroleum sector, other trading activities are left to the private sector. The NNSC acts as a government import agency responsible for covering the requirements of the Nigerian State and its departments, its imports of foodstuffs and other essential commodities are relatively small.

Ghana

There are three main STOs in Ghana, the Ghana National Trading Corporation, the Ghana National Procurement Agency and the Ghana Supply Commission. Ghana also has agricultural produce marketing boards including the Cocoa Marketing Board.

The role assigned to Ghanaian STOs is to carry in the bulk of the country's imports and to serve as Ghana's sole representatives in bilateral transactions between Ghana and the socialist countries of Eastern Europe and between Ghana and some African countries.

The Ghana Supply Commission is a government import agency responsible for supplying the state's needs in stationery, office machines and equipment, printed matter and so on. It charges a commission of 1 to 3 per cent to cover the cost of its activities.

The Ghana National Procurement Agency has the monopoly for importing essential commodities such as wheat, rice, sugar, meat, fertilizers, iron bars, cotton and paper in bulk. For economic reasons, that monopoly was reduced in 1977 to a mere control of the activities of trading corporations dealing in such products.

The Ghana National Trading Corporation imports and distributes a varied range of merchandise from machines and other equipment to electric appliances and textiles, pharmaceuticals, drinks, trucks and spare parts.

The Ghana Export Company Limited deals with non-traditional exports.

Kenya

[The Kenya National Trading Corporation (KNTC) was established in 1966 to take over the wholesale and retail trade from foreign operators. The task assigned to KNTC was to distribute essential consumer goods, market Kenyan manufactured products and act as a partner for the socialist countries with which Kenya has signed bilateral agreements.

Apart from its "indigenization" mission, the KNTC has been assigned the following objectives:

(i) Reducing the number of middlemen between manufacturers and consumers by streamlining distribution;

(ii) Helping to reduce consumer prices in order to benefit low-income consumers in particular;

(iii) Ensuring, at the discretion of the Government, control of trade in strategic products;

(iv) Exporting or promoting the export of Kenyan products that are not traditionally exported;

(v) Undertaking import activities and acting as an import regulatory mechanism at the discretion of the Government;

(vi) Establishing and promoting trade with countries that have signed agreements with Kenya;

(vii) Promoting trade with other African countries.

The KNTC gives preference to Kenyan products when they are in competition with products to be imported from abroad.

Tanzania

The Board of Internal Trade (BIT) is a sort of holding company which controls six import subsidiaries and 22 regional distribution companies. The importing branches are:

(i) The Agricultural and Industrial Supplies Company;

(ii) The Building Hardware and Electrical Supplies Company;

(iii) The General Food Company;

(iii) The Domestic Appliances and Bicycle Company;

(iv) The General Food Company;

(v) The Household Supplies Company;

(vi) The National Pharmaceutical Company.

The missions assigned to the BIT and other State Corporations were stipulated in the Arusha Declaration of 1967. Their tasks are to:

(vi) Help to establish more egalitarian society by ensuring that the spinoffs from development reach the whole country.

(viii) Help to implement "Ujamaa" for the development of the rural areas;

(ix) Help to mobilize national resources in order to ensure that the Tanzanian economy is self-reliant.

(x) Help to transform economic and social structures through a rapid expansion in production capacities.

(xi) Promote economic cooperation with other African countries.

The BIT monitors the activities of its six import affiliates and orients such activities towards the most competitive sources of supply or towards suppliers whose countries have signed preferential trade agreements with Tanzania. The BIT also gives priority to local producers. It ensures the integration of external trade channels with domestic trade channels through the links established by its import branches and regional distribution corporations responsible for distributing imported products in the various regions of the country.

A considerable portion of Tanzania's trade with developing countries and the socialist countries of Eastern Europe and China is carried by the BIT.

Zambia

The most important STO is the National Import-Export Corporation which, as it has been pointed out earlier on, is an outgrowth of the Zambian Industrial and Mining Corporation (ZIMCO). The NIEC controls importing firms and local distribution corporations. It also acts as a State importing agency for the specific requirements of Government departments. It also serves as a consumer price regulatory mechanism by giving the Zambian State appropriate pointers regarding pricing.

Ethiopia

The Ethiopian Import-Export Corporation (ETIMEX) was created recently in 1975. In 10 years, its turnover increased from US $ 5 million to more than US. 100 million. The activities of ETIMEX are for the moment focused exclusively on the import of a wide range of products from industrial raw materials to current consumer products such as foodstuffs and textiles, machines and equipment, building materials and chemicals. Although ETIMEX is under the Ministry of External Trade, it has autonomy in the management of its operations. Structurally, it is split into specialized corporations according to products. ETIMEX covers, at the moment, nearly 80 per cent of the country's imports. The redistribution of imported merchandise by the corporation is carried out by the Ethiopian Domestic Distribution Corporation (EDDC) which is the SPO responsible for domestic trade. ETIMEX also supplies private sector operators.

Ethiopia has specialized corporations that handle the exports of specific products: coffee is exported by the Coffee Marketing Board; hides and skins by the Hides and Skins Corporation, oil by the Oil Seeds and Pulses Corporation, cured leather and shoes by the Leather and Shoes Corporation and so on.

The medium-term transfer of certain export activities to ETIMEX would appear to indicate an expansion in its activities. It already coordinates import and export trade resulting from bilateral agreements signed by Ethiopia with other countries including barter trade agreements.

Egypt

Egypt has nearly three decades of experience in managing SPOs. The peculiarity of Egyptian SPOs is that they are the only SPOs in Africa which have their own international networks. They were quick to grasp the importance of trade among developing countries. El Nasr Import and Export Company has branches in a number of African countries namely, Senegal, Mauritania, Mali, Burkina Faso, Sierra Leone, Liberia, Ghana, Togo, Benin, Kenya, Uganda, Zambia, Zaire, the Congo, the Central African Republic, Nigeria, Niger, Chad, the Sudan, Cameroon and Tanzania. El Nasr is also established in France, Iran, Kuwait, Jordan, Syria and the Lebanon.

El Nasr has a turnover of nearly US $ 500 million. It exports textiles and cotton yarn, crude petroleum and petroleum products, rice, live animals, metallurgical products and it imports sugar, food oils, cattle, cement, maize etc.

Nasr Import and Export is turned more towards Asian markets and is established in India, Bangladesh, Sri Lanka where it is represented by the Egyptian Trade Centre. In Africa, it has contacts with Somalia and Ethiopia

where it is implementing a barter trade agreement with ETIMEX. Misr Import and Export exports quite a considerable range of products including chemicals, pharmaceuticals and medical equipment, foodstuffs, metals, weaving equipment, furniture and handicrafts. It imports machines and equipment, foodstuffs such as flour, maize, sugar, animal fats, raw and refined fats, tea, coffee, spices, grated coconut, various chemicals, metals and yarn, jute bags and propylene.

With a few exceptions, the structures and objectives of the STOs of other African countries are quite similar to those that are the subject of this analysis. The structures and objectives of STOs obviously have an impact on their management and efficiency. The analysis of the impact of the structures and objectives of African STOs on their commercial management is one of the focal points of this study.

CHAPTER III

MANAGEMENT OF AFRICAN STATE TRADING ORGANIZATIONS

Management is the art of guiding an organization or enterprise and ensuring that it is constantly able to seize opportunities offered by the business environment and to overcome problems arising from the same environment. This assumes that the organization or enterprise has the appropriate means which, when used optimally, could provide adequate answers to the problems posed by the forces in play in the environment. These conditions remain relevant regardless of the form of the organization and its place of operations and regardless of whether it is a private or State corporation. African State Trading Organizations (STOs) are also therefore subject to this rule. Regulation or guidance is, however, less easy in the case of a public corporation because the weight of the State with all its political, administrative and social implications is added to the commercial environment. The inadequacy of the human, material and financial resources available make it even more difficult to properly manage African public enterprises in particular and even more so in the case of African STOs. The current debate on the State sector in Africa concerns management problems and the efficiency of STOs. Poor management is deliberately put forward as the main, if not the sole reason, for the failure of African STOs.

The aim of any form of management is the efficient utilization of available resources to achieve the objectives of the enterprise. This, of course, assumes that adequate resources are provided to carry out the objectives of the enterprise and that the managers of such enterprises are given appropriate power. What does the situation look like as far as the management of African STOs is concerned?

A. Defining the Objectives of African STOs 5/

Defining the objectives of an enterprise is a crucial management decision. On this definition will depend that organizational structures and the amount of resources required (human, financial and material resources). It could be said that those who defined the initial objectives of the enterprise are considerably responsible for its success or failure although praise or blame is always laid on the shoulders of the managers of the enterprise.

The objectives assigned to African STOs are often badly defined or are not relevant to commercial organizations. The primary objectives of a commercial enterprise is that it should make profit and in establishing STOs, all the African countries of course mentioned that objective. While in a normal situation the profit-making objective is a crucial one for the trading company, in the case of African STOs, this priority seems to be divided between profit, social objectives and political objectives. Social and political objectives even take priority over the profitmaking objective in the course of the constant redefinition of objectives carried out by the authorities for reasons of political as well as economic expediency. This is in contradiction with correct trade corporation management which precisely requires that social and perhaps political objectives should depend on the profitmaking objective and that social objectives should flow from productivity and not the reverse. To this should be added the fact that the various objectives defined for the same enterprise are incompatible. The STOs of developing countries should, as it has been explained, certainly be asked to act as direct control mechanisms of the trade sector and tools for development, however, enterprises cannot be expected to be profitable when they are required, for instance, to employ twice as many workers as they actually needed or have the capacity to absorb which was the case of ONCAD in Senegal. The excuse of stopping inflation and guaranteeing the purchasing power of the people could not be used either to request a trading company to fix prices below its actual costs and expect it at the same time to make profits and not to benefit from State subsidies (see the case of the KMTC in Kenya and BIT in Tanzania which have been requested not to pass on any rises in the prices of goods to consumers even if such goods have to be sold below their cost price).

There is, therefore, an obvious lack of discernment in how the order of priorities of African STO objectives are defined, a lack of consistancy in defined objectives and incompatibility between objectives. Managers of STOs even wonder if their enterprises have real growth objectives. The state of affairs is the result of the incompetence of those responsible for defining the objectives. They are politicians with no management experience whatsoever and unaware of the requirements of a trading concern. Such men are rarely managers. In our opinion, the objectives of STOs should be defined at two levels:

(a) The State authorities should define the terms of reference, i.e. broad guidelines in the light of economic options and the development plan;

(b) The managers and corporation directors should define the objectives of the corporation as a commercial entity. This group should decide on the proper balance in resources and jobs and the growth and profitmaking objectives.

B. The actual power of African STOs and how such power is combined in the management of the organizations: management autonomy, a must

It is not enough to define the objectives of the enterprise and the volume of resources required to attain such objectives. The provision of appropriate human, financial and material resources does not guarantee the proper operation of an enterprise or its ability to make profits, the actual decision-making power and the independence of managers which is the consequence of such power are crucial questions in the management of public enterprises and of STOs in particular. They raise the problem of relations between the State and the public enterprise and the problem of STO decision-making centres.

1. State control

When they are established, most African STOs are considered rather as outgrowths of State departments and of the Ministry of Trade in particular. Therefore, in the eyes of the supervisory minister and of his staff, the enterprise is a sort of "operational department" of the cabinet whose role is to conduct commercial operations. This explains why in many cases the directors of African STOs are very often former members of the central State department specifically seconded to act as directors of STOs. In most African countries, a sort of monitoring structure playing the role of a management unit is quickly created within the supervisory ministry. This unit follows almost daily the activities of STOs and submits for the minister's approval decisions relating not only to the general policy of STOs but often also to their commercial management. The direct hierarchical relations between the management of the STO and the management unit the behaviour of the seconded director favour such a situation. Most directors of African STOs do not in fact direct their enterprises. In order to keep their job, they prefer to follow the supervisory ministers. It is therefore not surprising that the STOs of several African countries operate in a very bureaucratic style and are unable to fulfil any of the business objectives they are assigned. The management of a business requires rapid decision-making, a keen sense of commercial risk and sometimes total discretion which are in contradiction with the submission of draft decisions to a minister for his approval or even the direct negotiation of contracts by the same minister. If STOs are to be managed like real businesses, their directors must be given a free hand in decision-making. It is an illusion to think that public enterprises can be given complete autonomy just as it is an illusion to believe that the total dependence of STO directors is compatible with proper business management. Once the broad policies have been defined, management decisions should be left to the managers who should be judged on their performance.

2. Decision-making centres within SPOs

We have seen that in their relations with the State, some SPOs suffer from the fact that they are directed from outside. Splits in the decision-making power within SPOs related to the manner of recruitment of the managerial staff is also noted. In some African countries, divisions within the ruling party are reflected in the public enterprises and struggles among factions can bring the activities of SPOs to a standstill. Some factions mobilize trade unions against the management others ask the managerial staff to disregard the authority of the Director General. This situation is, of course incompatible with the management of a business.

3. A break from bureaucratic and political interference: "contrat plans"

"Contrat plans" are not an African invention. They were introduced into some African countries including Senegal by foreign experts who drew their inspiration from the relationships between the State and SPOs in France over the past 20 years. The terms "contrat programme", "contrat entreprises" and "contrat plans" in fact mean the same thing. The State introduced this system of public enterprise control in an attempt to clarify the objectives of SPOs and to encourage such enterprises to be autonomous in their management.

Under "contrat plans", State control involves only the appointment of SPO directors and the inspection of SPO management after the structures have been established. The State and public enterprise become partners linked by a mutually agreed management contract. The contract defines the strategy to be followed by the SPO in the light of the objectives of the State and indicates explicitly (quantified management indicators) the management objectives. Once the contract has been signed by the supervisory ministry and the directors of the SPO, management decisions are no longer subject to prior State authorization so long as they do not jeopardize the strategy laid down in the contract. The State is represented on the governing board just as are the other contracting parties (local authorities, managerial staff of the enterprise, trade unions, etc.) and its representatives are there to express their own opinion on the running of the enterprise and not to impose orders received from the supervisory ministry (they do not have casting votes).

The "contract plan" is also a useful means of evaluation 6/ the public enterprises since it offers accurate reference data and explicitly establishes the responsibility of the directors of the enterprise.

The contract plan reestablishes the balance between State control and the autonomy of public enterprise.

The African States, that have adopted the system of "contrat plans" have accepted it as a means of extricating themselves from the financial burden laid on them by inefficient STOs. In the initial process of implementing "contrat plans" some progress has been noted in the performances of certain African public organizations particularly in Senegal where the establishment of a "contrat plan" with SOTRAC (Société de Transport du Cap Vert) has brought about a notable decrease in the management deficit of the enterprise. It would be interesting to see what the outcome of a strict implementation of a "contrat plan" on an African STO would be. So far, the supervisory ministries still interfere even in cases where it is stated that the principle of autonomous management defined by the "contrat" plan is respected. The lack of experience of States and managerial staff of African STOs is perhaps to blame for this.

C. Mobilization of resources and their use in managing African STOs

In the introduction to this study, it was stated that the debate on African state trading organizations is a debate on the mobilization and optimal use of resources available to African States. The debate has been further sharpened by the stark scarcity of such resources in African countries. Good management depends on the availability of resources and their efficient use. Let us see what the situation is like in this regard in African STOs.

1. Human resources

As far as human resources are concerned, African STOs have a problem of quantity and a problem of quality.

Quantity. When most of the African STOs were established, the authorities concerned did not undertake thorough planning of the human resources in line with the requirements of the businesses. Even when organizational charts were prepared considerable changes were soon made to them solely to include additional staff who were hired on the basis of criteria which had had absolutely no connection with the proper operation or profitability of the STO. Compared to similar businesses in the private sector, African State enterprises used too many staff (at least 30 per cent more). Staff costs are often one of a factors that affect the profitability of African STOs. This is the result of the declared or undeclared intention of the State to make the public enterprise a machinery for absorbing unemployment at all costs and a means of satisfying a political clientele in search of jobs. Instead of promoting new investments to control unemployment, the State overstaffs the few enterprises under its

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6/ For the assessment criteria of a public enterprise see MSS El Namaki, An Approach to the Evaluation of the Performance of State Trading Organizations in Developing Countries, KVB Alf Holland.

direct control. The African public enterprise does not recruit its personnel, such personnel is imposed on it from various sources such as political authorities, religious leaders and even the members of the families of the Directors of the enterprise. Such overstaffing decreases the productivity of the enterprise and helps to transform it into a complex bureaucracy.

Quality. Earlier on, it was stated that the managerial staff of African PEOs is very often an outgrowth of ministerial cabinets. In some States, including Senegal, most Directors General of Public Enterprises are either former technical advisers to the supervisory ministers, former state inspectors or former members of the Office of the President or former ministers, regardless of what skills such administrators might have in their field of competence, they neither have the training nor the experience required to manage a business. There is a difference between public administration and management of a business. Sometimes the priority given to the political criterion in selecting Directors makes public enterprises have more politicians than competent managerial staff and this does not allow the enterprise to function smoothly.

c. Financial and material resources

(i) Investments

We mentioned the importance of the ideological and political factor in the creation of African PEOs. There is a certain spontaneity in the selection of investments. One is sometimes surprised to find that practically no serious feasibility studies were carried out prior to the creation of most of the African PEOs or even when such studies were carried out they were used only as excuses because the conclusions of the studies were quickly sacrificed to the whims of the politicians who determined before hand the shape of the new enterprise even before implementation of the studies. The case of the Indian enterprise Hindustan Aluminium which was established on the assumption that a power source was available, which when it was built it was realized that the power source did not exist. There is also the case of the mango juice production company which was established without making sure that the raw material was available. 7/ Such cases are not rare in Africa. Many were the investments that were made without any prior studies which turned out to be a waste of resources.

7/ Reported by P. Fernandes in Public Enterprises and the Bottomline, article published in Financial Profitability and losses in Public Enterprises of Developing Countries, edited by Sir U. Ahmad, ICPE.

(b) Financial structures of African STOs

The initial investment of the State mainly goes into fixed STO assets. Almost everywhere, the mistake was made of thinking of the commercial nature of STOs and neglecting the funding of at least part of the operating costs from equity capital. The directors of STOs were requested only to utilize supplier credits and/or bank credits to cover their operations. The costs of such credits in terms of interest and other charges may be so heavy that they eat into the profit margin of the enterprise. African STOs in particular, and even some private African business have problems of revolving funds which hamper their proper operation 3/ in a hostile banking environment. This lack of revolving funds is often aggravated by the lack of competence in financial management within such enterprise which results in the fact that even when the business is provided with a revolving fund, the poor credit policy to clients and the haphazard management of stocks (over stocking) wipe out the financial autonomy of the business. There is also the general insufficiency of financial resources of African STOs in relationship to their assigned objectives. The social missions and objectives are rarely considered when the financial requirements are being assessed and social achievements are hardly compensated for. The excess staff that STOs are forced to maintain, as well as losses on sales prices when the State keeps such prices below the actual costs of the business, are not compensated for or if they are, the subsidies that are supposed to cover them are paid very late and at a rate which does not take into account the operating cycle of the STO.

D. Business management

(a) Domestic trade

In the classification of African STOs described above, mention was made of import distribution STOs which handle both international trade and local distribution (domestic trade). Some of these commonly have their own network of shops managed by their own staffs such is the case of the Office National de Commerce du Congo - ONATRACOM. Other STOs such as SONADIS in Senegal approach domestic distribution indirectly by authorizing local distributors who pay them a deposit to operate under their name. In some cases, the local distributors are independent and do not use the name of the STO.

3/ See M. Tine, 'Rapport sur le fond de roulement des entreprises sénégalaises.' Université de Dakar, ENSUT.

Under the direct approach, the STO is solely responsible for the whole distribution network and its decentralization in the rural areas. Some distribution units are often established under this approach in defiance of any rationality or notion of profitability.

In the case of the network of licensed distributors (the indirect approach), the image and guarantee of the STO are maintained and the STO participates in promoting a class of local traders which it trains in the rudiments of business management and to which it provides management assistance through a body of trade inspectors. The margin of manoeuvre of this class of traders is, however, limited in that their prices and the range of products that they distribute are determined by the STO that authorizes them to trade. On the other hand, the STO has no control whatsoever on the independent traders that it promotes. They set up shop where they wish and sell as much as they want and are subject to the general regulations of the country. The STO's assistance to them is limited to ensuring that they have regular supplies and supplier credits (GNTC played a similar role in Ghana).

(b) Import management

(i) Justification and conditions

For nearly 20 years, trade promotion policies and programmes in Africa concentrated mainly on exports. Awareness of the importance of management and import control is recent. It is probably the recent foreign exchange crisis which has brought about such awareness. African States have understood that management of foreign exchange resources makes it possible to regulate both the inflow and outflow of such resources. Care should be taken to ensure that the foreign exchange earned through exports should not be wasted on uncontrolled and/or over-valued imports. African States have two options for streamlining imports: "administrative management" which entails the establishment of import regulations and leaves operations to independent traders or "direct" import management by the State operator, therefore, through State corporations created with that end in view. Experience has demonstrated that import regulation through taxes, tariffs and monetary arrangements (import deposits, variable exchange rates) and the issue of licenses and prohibition has only a relative impact on the management of imports and the channelling of imports towards development objectives. All these regulations are easily avoided through the corruption of the civil servants responsible for implementing them. Direct control by the STOs, therefore, seems to be the safest option. Even in the States that have importing STOs, both types of control exist side by side because of the mixed nature of the economy but direct control is predominant in some African countries such as Ethiopia, Angola, Tanzania, Zambia, Algeria and Egypt. African States also prefer "direct" management in order to ensure that there is a regular supply of essential commodities and to keep price fluctuations down to limits that are acceptable to consumers. The States also want to ensure that their commitments under bilateral agreements are met.

The intervention of STOs should also enable African States to make economies of scale, use imports as negotiating weapons to promote exports and to counter-balance importing transnational corporations.

Import planning and management by the African STOs are carried out within an atmosphere of constraints to which African public enterprises are generally subjected.

(a) The control of markets by the State imposes rigid purchase procedures above certain sums tendering of bids is obligatory and the management of the STO has no control whatsoever on the decision of the national contracts committee - this is the case in Senegal;

(b) In view of the foregoing, freely negotiated contracts play only a small role in the purchases of the STOs concerned and it is therefore not possible for them to sign long-term contracts with suppliers and in so doing, to obtain better terms.

(c) The impossibility of guaranteeing the independence of decisions regarding purchase and of keeping negotiations secret. In some enterprises, decisions regarding purchases regardless of the size of the contract are made by a committee comprising managerial staff of the enterprise which is the case of EMTEX in Ethiopia;

(d) The lack of information on possible sources of supply, on prices and trade practices;

(e) The shortage of experienced trade officers.

(f) The foreign exchange crisis and cumbersome procedures for obtaining import licenses and paying suppliers.

In most African countries, macro-economic planning is not descriptive enough with regard to sectors to offer clear references for the planning or programme officers of importing STOs. External trade planning figures often do not have solid empirical foundations and therefore STOs that are given monopolies are obliged to make risky estimates. The relations between STOs and central planning also raise serious problems when the points of view of the directors of the enterprise and those of central planners diverge and the latter have no idea whatsoever of the marketing approach that the STOs are trying to describe.

In African STOs proper, there is often no planning. Most African STOs do not have a planning department and handle demand on a daily basis and in an approximate manner and this is what causes the frequent shortages and enormous financial charges that result from an improper management of orders and stocks. When the planning function is left to the trade department, which is often the case in Africa, it does not have proper tools to carry it out effectively (there is a lack of reliable information, lack of serious studies on demand, no - quantitative and qualitative assessment of supply etc.).

It is therefore under such difficult conditions that African STOs carry out (if they do so) the planning and management of imports. Let us now see how these African STOs that plan do so.

(ii) The planning process

Demand assessment

This is a crucial phase in the planning and management of imports. In most cases, such assessment is based on historical data and is done by extrapolation. No consultations are carried out on the figures obtained outside the enterprise and, in many African STOs, this leads to an under-assessment and very rarely to an over-assessment of demand. In rare cases, such historical extrapolation is preceded and/or followed by systematic consultations with associations of users within the chambers of commerce, users of the parastatal sector and, as a last resort, the national planning department. Such consultation permits an assessment of quantities and yields qualitative data which could serve as a basis for breaking down the demand and identifying appropriate sources for supply.

Product strategies and purchase strategies

As far as product and purchase strategies are concerned, the hands of African STOs are tied by political considerations and commitments made by the State. The products to be purchased and the sources of supply are often determined beforehand and forced on the enterprise by various factors that Michelle Saint Marc calls the economic traumas of marketing channels 9/. If solutions to the commercial policies of STOs such as advertising are possible to overcome the lack of adequate information (purchasers do not have a complete picture of the conditions of the market and the various possible sources of supply) and psychological rigidity (purchasing and consumption habits), institutional rigidity such as preferential trade agreements, tied aid, direct financial links and monetary zones is more insidious and in fact forces partners on African STOs. This obviously restricts their margin of manoeuvre. African STOs therefore do not operate in a competitive environment that is perfect or even relative which allows them to choose product strategies and import markets. In the short term, African STOs should identify products that are not subject to quotas in the import programme and try to initiate a process of diversifying their sources pending the lifting by the governments of the institutional constraints that tie the countries often to the former colonial powers or to multilateral co-operation agencies such as the European Economic Community.

At another level, the lack of information on market trends and the lack of serious analysis of available data do not enable African STOs to purchase at the appropriate time and at appropriate prices and to avoid shortages or over-stocking which are factors that have an impact on the profitability of the enterprise.

9/ Michelle Saint Marc, "Commerce Extérieur de Development, SIDES pages 175-195".

(iii) Physical management of purchases

This is the most worrying aspect in the process of acquiring and managing imports. The losses suffered by African STOs in this area often cancel out all their efforts elsewhere to streamline management. High forwarding costs (transport, transit etc.) and the excessively high financial expenditure incurred as a result of the poor physical management of purchases have a great deal to do with the poor performances of importing African STOs. The causes of such poor performances are poor planning of purchases, transport, storage and distribution. Even when the State lays down standards in this area, there are problems in their implementation because the agents of the supply departments of the public enterprises lack the appropriate skills.

Physical management begins from the demand assessment phase, the quantitative aspect of this assessment has already been mentioned. The qualitative aspect concerns mainly the definition of quality standards to reduce the range of articles to be purchased and to ensure that they meet the requirements of consumers. It is of course the responsibility of the national standardization agency to define standards at the national level but in most African countries even if such an agency exists, it is inactive and has not been able to develop enough standards to cover the products imported by the STOs. The Ethiopian Institute of Standardization, which is one of the best structured and most active in Africa, has prepared standards for only a limited range of products imported by ETIMEX and the other Ethiopian STOs. The purchasers of African STOs are therefore often left to themselves in this area and their limited knowledge of some products does not help them. Very few STOs in Africa have made the effort to remedy this situation by preparing purchasing manual on procedures and products. The problem of standards is wider than the products themselves and concerns other aspects such as processing and packaging which in turn are affected by the quality of handling and transport. The use of the standards of the International Organization for Standardization, would be a short-term solution but it should not be forgotten that such standards were often defined in contexts that are different from those of African countries. It is, therefore, hoped that the Nairobi based African Regional Standardization Organization (ARSO) will be able to help in speeding up efforts of African countries in this area at the national and regional levels.

Another aspect directly linked to quality standards and other specifications is checking to see that orders and physical deliveries by the supplier match. Such verification is carried out at two levels: before and after the orders, before loading and upon arrival at the port of reception. Most African STOs have no accurate knowledge of the real capacities of suppliers when they sign contracts with such suppliers. The exploratory missions of purchasing departments which would have enabled purchasers to familiarize themselves with exporting companies are often not considered by the management as a profitable investment but rather as useless trips. Such exploratory missions would have spared many African private and public enterprises considerable difficulties because they realized, when it was already too late, that they had signed contracts with shady middlemen or with small producers incapable of satisfying their demands. Many advances paid under such conditions have been lost.

As far as inspection prior to loading is concerned, the public services and STOs of most African countries rely on the monitoring corporation which thus has near-total monopoly even if it has often been realized that despite the certificates of conformity issued by the monitoring corporation some articles were in fact loaded without prior inspection and were not in conformity with the required standards of the importing African STOs. It is perhaps high time that the contracts signed with the monitoring corporation were reviewed and provision made for penalties. The ideal would be for African countries to set up joint inspection units by encouraging the creation of African bureaux of maritime and merchandise experts.

On the whole, African STOs do not have inspection units for incoming goods. Such inspection is often carried out by the trade departments which do not have staff really qualified to do so.

(iv) Transport and logistics

Foreign exporters always insure sales C&F. Comparative studies carried out by some African importing companies have proved that freight rates are too high and the freight rates obtained directly from shipping lines could be as high as 20 to 25 per cent. The fact that several African countries have their own shipping lines should encourage STOs to purchase FOB and to consolidate their freight to enable national shipping lines to help them to plan the transport of such freight. National shipping lines could either forward the goods themselves or negotiate preferential freight rates with other shippers or liner conferences. However, STOs need to have logistics and transport staff to coordinate matters with the national shippers and forwarding agents in order to deliver the goods on time. This is often not the case. Some African STOs are victims of congested harbours in countries such as Nigeria and Ethiopia and pay considerable charges to the port authorities and banks. Although STOs are certainly not responsible for the inadequacy of port facilities it has an adverse impact on their operations. The State should therefore take appropriate measures for streamlining harbour traffic in favour of commercial operators making available the equipment required for such streamlining such as quays designed for handling containers and cranes.

The ultimate phase of physical management of imports covers the storage and management of stocks as well as the distribution of goods to consumers. In these areas, the distribution of functions varies from country to country. In countries such as the Congo, the importing STO (OFNACOM) has a bi-polar structure and imports and distributes through its own distribution network, in other countries such as Ethiopia, Zambia and Senegal, the importing STOs leave domestic distribution to STOs created for that purpose. This latter approach cuts down general management problems. In both cases, there are serious problems in the layout of storage warehouses, the arrangement of control documents and the physical inventory of goods. This results in enormous losses and makes it impossible to streamline the volume of stocks to avoid overstocking or shortages.

(c) Export management

It was pointed out earlier on that exporting African STOs are mainly agricultural produce or mineral marketing boards established to manage the exports of one or several agricultural products. Such boards often use traditional channels that link African countries with established markets in the North. They administer sales and their capacity for innovation, research and planning of marketing has been blunted by routine procedures. With policies now turning towards the export of products with an added value such as finished or semi-finished products, the structures of such STOs have to be revised, revitalized so they can diversify their markets and adapted to the competitive environment of international trade.

CHAPTER IV

Diagnosis of management functions of African State Trading Organisations

1. Analysis of the current functioning of the STOs

The current operations of African STOs are subject to the following criticisms:

- their functioning is expensive
- they are not homogeneous.

1. Operations

Compared to the existing level of activities, structural costs are too high.

1.1 Productivity is insufficient

The operating staff exceed by 50 - 100% the normally required number of staff. In spite of this excessive staffing, materials management systems are substandard as the receipts and operations of incoming and outgoing stocks are often not in line with actual physical stocks.

- Frequent stock shortages and re-procurement procedures not in line with optimal and cost effective stock management requirements.

- There is no way, in such a situation, to check and determine losses, delivery errors and pilferages.

1.1.2 Procurement and procurement operations are poorly organized

The concerned SIDs have adopted a system of public procurement which includes a combination of centralized and/or decentralized procedures.

The procurement department of each SID has been established by a decree or special order.

The acquisition of goods or services by the general manager can be only be effected within the limits of the amounts indicated in the annual budgets.

Procurement officers cannot approve or submit procurement lists to the relevant authorities for their approval. Under the purview of current instructions, purchasing departments purchasing organizations, can draw their procurement procedures, issue tenders, negotiate and conclude business deals to the extent of powers granted to them and within established financial rules.

The department has to go through all the procurement process including the preparation of a contract reflecting clauses agreed upon by the two parties i.e. the management and the supplier that has been selected through the tender process or after bilateral negotiations such contracts can come into force only after they have been approved by competent authorities, i.e. either a national committee, the Minister or his representative.

It has been observed that the purchasing procedures are often still based on the colonial era rules.

The purchasing function is of a crucial importance in all investigated organizations.

It seems necessary

- to undertake an in-depth diagnosis of the purchasing procedures and procurement obligations.

- to formulate recommendations for the strengthening of these organizations' structures.

One of the very problems that has been often mentioned is that of excessive delays in the conclusion of contracts agreed upon as per the purchasing systems and rules applied by the majority of the purchasing departments of the visited organizations. Three or even six months may be needed before final conclusions of contracts.

On the basis of the procedures and obligations foreseen in the existing system for agricultural products, the delays can take place either in the purchasing department of the organization concerned or at the level of the administrative or financial control.

Different factors have been identified as sources of these delays. The most important among them is the rigidity of procedures which do not include any provision for all-wing selection and application of procurement methods based on market structures and mechanisms.

Other adverse factors:

A large number of operational officers do not know anything about the objectives of their organizations and are poorly acquainted with the purchasing system.

The lack of a strategy of forecasting needs on the domestic market in the area of purchasing does not seem to be a preoccupation of the majority of senior managers.

Another issue often mentioned is the absence of any procurement information systems with regard to imports, as well as the unawareness of commercial and financial consequences of procurement operations. One could add also the too rigid approach to these problems.

1.1.3. Procurement tools and administrative procedures are costly and poorly integrated and they provide little information

(a) They are costly

Average payroll amount of ASTO's account for 30% of the turnover. The total cost of the prescribed administrative work is much beyond what is reasonably acceptable.

(b) Poorly integrated

Commercial statistics, if in existence are not in line with sales accounting books.

(c) They provide too little information

The most worrying information gaps are:

- total lack of knowledge of actual profit margins during a financial year and the absence of sectoral analytical data on such margins.

- absence of follow-up of the sales by item

- inadequate statistical data bases which do not provide required information

4. Trade activity

- two characteristics

- profit margins are decreasing

- marketing policies partake of routine procedures

2.1. Lower profit margins

Two reasons can explain this phenomenon: "blind" tenders and ineffective procurement departments.

Tender issuing offices are often "blind"

They have no connections with sales structures and therefore do not receive direct information on the market as a whole.

The traditional clientele has been neglected

In spite of the efforts undertaken by some STOs, the traditional clientele is poorly targeted and insufficiently stimulated. There are no programmes of business visits and the sales representatives do not have any individual files about their clients. Moreover, promotional activities are rare and of poor quality.

3. Inadequacy between tasks delegated to certain agents and the training they received

It has been observed that training does not occupy much room in the STO managers preoccupations. We could identify serious gaps in the operations of STOs of which most are due to inadequate training of operational staff. We shall attempt to outline the senior managers responsible for the management and the staffing of STOs with a view to elucidating flaws existing in the management of STO's we visited.

The critical observations concerning STO managers mentioned here are not relevant to their personalities.

Opinions indicated below were expressed by the employers who can evaluate their immediate collaborators in real situations.

Young managers are not operational enough, they have accumulated knowledge which they do not use to carry out their duties. They have not acquired practical know-how.

[illegible]

[illegible]

The majority of managers have a fragmented vision of the techniques they are using: they are not capable of grasping the totality of the enterprise as a whole.

They are not aware of their limits. Overwhelming incompetencies have been registered in certain cases: basic intellectual tools (reasoning, written expression), knowledge, skills allowing to understand and to explain certain subjects or to correct mistakes in the past.

Types of behaviour have been observed which are poorly suited to initiate action to motivate a team: middle and lower managers

Finally, status and remuneration are in the majority of NCDs so low that they do not stimulate initiatives and do not allow the [illegible] recruitment policies. The fact that some managers have been hired to their positions without having or lose their capabilities is another reason to this.

It was also noticed that majority of NCDs have not been sufficiently selective in hiring their staff through proper recruitment policies and knowledge tests. It is necessary to mention again that these critical views varies slightly according to the situations.

We are not with to question the good intentions of people but it is necessary to understand the functioning of mechanisms in the light differences in knowledges and activities actually carried out by certain cadres.

Having pointed out the major shortcomings of African NCD's we shall now focus the rest of this report on ways and means of improving their structures and management.

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CHAPTER V

Restructuring and reform of African State-owned enterprises

The inefficiency of public enterprises in their present contexts have left African Government with three options:

(a) Privatisation (of such enterprises)
(b) Their liquidation
(c) The rationalisation of their structures in Government

1. Privatisation

This seems to be the favourite form of intervention of the above mentioned types of structural adjustment programmes.

Improving and re-establishing financial balances in the short run require resources that can be immediately yielded through sales of public assets (SOE's and other public enterprises). However privatisation encounters an existing many obstacles of which (a) the lack of native buyers who would take over SOE's in order to efficiently run them, (b) the net loss of assets sold by Governments (proceeds of sales of public assets are often less than the residual value of assets and taxes or profits of the enterprises being sold) (c) social functions of such enterprises are not always financial profitability and will have to be taken over by Governments through other arrangements and with other resources.

Privatisation is not in any case a panacea and does not guarantee efficiency.

2. Liquidation

Liquidation is a negative approach to re-structuring. It doesn't carry any renewal expectation for the enterprise nor does it guarantee continuity of the latter's activities. The decrease of subsidies expected by Government in cases of liquidation is lower than net losses incurred on assets that are often abandoned or lost. In any case liquidation is a source of net losses of jobs, increased social strifes triggered by the resulting vacuum.

3. Rationalising structures of enterprises of SOE's

Stabilizing, consolidating and relaunching boundries should be the main preoccupations of policy makers who to cope with the current depressing economic situation.

Liquidating STO's is obviously not in line with policies founded on such preoccupations;

Privatisation has always been a progressive interaction and payment income and consequently an increase in growth;

Radical solutions such as privatisation and liquidation cannot be completely ruled out but one should be realistic to resort to them only in cases where they are inevitably unavoidable and when alternative mechanisms for the safeguard of national interests and socio-economic functions hitherto fulfilled by concerned enterprises. The support and improve the management of public enterprises (mainly the STO's) appears to be less expensive than their liquidation or their selling off under conditions which would not guarantee the fulfilment of their original socio-economic objectives. Rationalizing STO's structures and management with a view to improving their efficiency should be a priority for the African Government. How to carry out restructuring and rationalisation programmes?

3.1 Formal redefinition of STO's objectives and missions

The definition and setting of STO's objectives (explicit and implicit ones) should be carried out. Their redefinitions should provide for

(a) Social objectives
(b) Economic objectives
(c) Profitability and commercial efficiency variations of such objectives should not be subject to political leaders' needs, they should be translated by strategic changes required in management plans for the development of the enterprises concerned.

The objectives should be consistent for STO's can't for example be asked to sell under cost prices and at the same time yield profit margins where no commensurate subsidies are paid to it to cover losses incurred in their attempt to attain such political objectives of Governments.

Socio-economic and commercial objectives should only be set where governments can commit themselves to establish compensatory mechanisms for the remuneration of activities carried out by STO's for the attainment of such objectives or their reflection in value in the balance sheets (as credits on the state for example).

3.2 Privatisation management autonomy

This calls for a redefinition of the relationship between STO's and central Government supervisory authorities with a view to simplifying and rationalizing such relations. Any management operations requires flexibility that cannot be fulfilled when Government bureaucracy prevails. STO-management relationship should be further clearly defined in "contract-plans" or any

their type of investment of that sort. This type of contract should be drawn in simple terms and should focus on a limited set of performance indicators and a few objectives in figures (just the profit rate, expected investments etc.).

The establishment of "Sociétés Nationales"

National Corporations in lieu of traditional public enterprises is on their way of furthering STO's autonomy. Current experiences in a few African countries (Senegal etc.) are to account for accurate evaluation - judging by managers' enthusiasm for this type of corporations and efforts they apply to get their STO's turned into "Sociétés nationales", we may say that such types of corporations satisfy managers' quest for autonomy.

3.3 Freeing STO's from economic and political "traps"

In the competitive environment of international trade managers of African STO's should be left free to design their own commercial strategies - governments should respect managers autonomy and their ability to make strategic decisions they should not sign bilateral and/or multilateral agreements which would force partners in STO's through tied aid, predesigned import programmes indicating quotas and sources etc.

3.4 Staffing STO's with well qualified personnels and setting systematic on the job training programs.

In this end, managers should be left free to attending, under no political pressure, the necessary staff for the optimal functioning of their STO's as well as the required qualification of the various staffs. This might help break with the pletheric staffs of state STO's and with incompetent staffs.

3.5 Improving financial structures of STO's

This could be achieved by getting STO's endowed with sufficient long term financial resources for the financing of their fixed assets and adequate working capital that would enable managers mining their excessive dependance on banks and the impact of excessive financial charges hampering STO's profitability. Improving financial structures of STO's would require from government that they stick to their commitments vis a vis STO's by paying at fixed prices for supplies and services provided by the latter governments should also compensate losses incurred by STO's for the attainment of imposed socio-political objectives, with sound financial structures managers cannot be expected, notwithstanding their competence, to miraculously fulfil objectives of profitability.

3.6 Drawing strategic management plans for STO's

Like any other type of enterprises, STO's are systems which are subject to changes (they have to move forward or decline in bankruptcy). Management policies should therefore take this into account. Such policies should result from thorough analysis on how enterprises could grow on the basis of their traditional activities and/or in new areas or notions of action. All possibilities of changes in markets and products should be envisaged.

3.7 Improving operational business management and planning management tools

3.7.1 Restaging structures

Most STO's have already established procurement or marketing departments. The issue is therefore to improve the functioning of such departments by ensuring (a) a better coordination between the departments and services they operate (b) the establishment of administrative offices for the following of procurement or sales actions with regard their logistic implications which would support procurement officers or marketing forces. These offices would ensure that established procedures are respected and that accurate statistical data on stock changes are maintained on their operations are duly documented.

3.7.2 Reviewing or improving administrative procedures in a global way with a view to diminishing procurement costs. In many African STO's such procedures are extensive and costly.

3.7.3 Drawing formal commercial policies

(a) For Procurements

- Standardizing or specifying goods to be procured.
- Insuring a formal close management of supplies by monitoring the procurement step by step (processing, ordering, delivery, stocking, etc.) and coordinating the various operations to avoid breaks in the procurement chain.

(b) For sales: to provide sales forces continuous support in all administrative and logistic matters, by systematic research and promotional policies, mastering stock changes, fixing delivery time on logistic processes leading to effective delivery.

(c) At global levels: systematically planning commercial operations (procurement or sales), draw flexible budgets based on varying levels of operations, ensuring periodical evaluation comparing forecasts and effective results.

4. Reforming and Re-structuring STO's: another approach

4.1 The current situation

Current structural adjustment policies include a negative approach to reforms and re-structuring of public entreprises in general and STO's in particular - Privatization and liquidation are the favorite remedies advocated to solve problems of public entreprises.

The only results of all these policies are recession, exacerbated unemployment and their effects on incomes and markets. In total this amounts to the shrinking of the economic structures of the economy and to depression.

Privatizations and liquidations of public entreprises entail wastage of sizable resources in compensations paid to labour and directly consumed without any impact on employment or production.

4.2. Proposals for new approach to privatization and liquidation

Re-structuring programmes should be carried out keeping in mind the fundamental objectives of economic stabilization and growth and they should be consistant with such objectives. To this end, safeguarding jobs, consolidating and strengthening national economies should be the main preoccupations. With investments currently stagnating and declining in most African countries, policies should aim at preserving existing entreprises or at least turning liquidations of the latter into opportunities for the creation of small and medium scale entreprises through "spin off" processes. 12/

4.2.1. "Spin off" Processes: Principles and Modalities

The issue is to find ways and means of substituting to the current negative approach to privatization and liquidation of STO's a positive approach to try to improve performances of STO's through internal management actions and existing strategic management plans (where they exist). If such attempts to reform STO's using internal positive management forces are not successful, STO's should be encouraged to organize their self liquidation and their dismantling into several other organizations to be promoted on the basis of ideas formulated by their staff and management for diversification and on the basis of existing strategic corporate plans and corporate profiles and dormant

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12/ See Ales Vahcic, Janez Prasnikar and Tea Petrin in "Development Strategies of the Commune of Nova Gorica (Yugoslavia), a search for entrepreneurs in a self managed economy (University of Ljubljana, Yugoslavia)

Agencies should be set in reforms aimed for the improvement of internal management systems and structures of SMO's with a view to ensuring the optimal improvement of performance from within SMO's. For such improvement to take place, review and rationalization of all management functions should take place. Failure to achieve such internal reforms should be positive privatization and legislation programmes that would restrict such economic functions previously carried out by SMO's being re-structured and improved. Spin-off processes self centered re-structuring from within SMO's should provide opportunities to turn privatization and legislation into programmes for the creation and promotion of new enterprises that would contribute to the consolidation and possibly growth of national economies and to the preservation of jobs as required by the situation in most African countries.

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TRADE POLICY REFORMS AND STRENGTHENING INSTITUTIONAL CAPABILITIES WITHIN THE CONTEXT OF STRUCTURAL ADJUSTMENT PROGRAMMES

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I. INTRODUCTION

1. During the last 25 years African countries have been attempting to assess their overall economic performance with a view to mapping out possible strategies for the improvement of their trade performances. Ten years after the adoption of the Lagos Plan of Action the economies of this continent continued to be hard it by a deep and intensifying crisis. A crisis that started because of a persistant world recession that had such a devastating impact that many economies of developing Africa find difficult to overcome. Subsequently on the other hand, there have been clear signs of recovery in developed market economies during the last three years which have not spread on to the African economies. The structurally dependant and excessively extroverted African economies were not in a position to protect themselves from the impact of the past recession coupled with an increasing debt burden, demography, drought, desertification and in certain cases domestic mismanagement of the economies. With regard to trade, this has, once more, revealed the shortcomings of national development policies and the limits of primary commodity export-oriented trade promotion policies.

2. The strategy of self-sustaining and collective self reliance advocated in the Lagos Plan of Action calls for a reversal of priorities and a gradual break with the system of quasi-imperial preferences which have hitherto prevailed in Africa's trade relations with developed countries. The order of priorities required under the Lagos Plan of Action is based on the setting of economic growth on indigenous footing and the fastening of international development factors in national, subregional and regional structures such as the intergovernmental trade organizations. The rationale of this is that Africa's external economic relations should contribute to the continent's development and not to the transmission of growth to development poles outside Africa as is the case now.

3. In line with the strategy for restructuring the markets for intra-African trade, the Lagos Plan of Action recommends the reduction or elimination of trade barriers through the establishment and/or strengthening of preferential trade areas or similar institutions. The setting up and/or rationalisation of mechanisms for facilitating and developing trade should also constitute an integral part of the overall trade policy implications of the Lagos Plan of Action.

4. It is for this reason among others that this paper (a) broadly reviews the situation of the trade sector in the light of current externally induced adjustment programmes, the Lagos Plan of Action and the African Alternative Framework for Structural Adjustment Programmes, (b) carries out a global assessment of current trends of Africa's trade (c) reviews actions undertaken at the national,subregional and regional levels for the implementation of related recommendations in the Lagos Plan of Action and (d) reflects on ways and means of rationalizing and improving intergovernmental trade organizations for effective changes in the trade sectors of African countries as advocated in the Lagos Plan of Action.

II. THE IMPACT OF EXTERNALLY INDUCED ADJUSTMENT PROGRAMMES ON AFRICA'S TRADE

5. Under pressure of the dire economic crisis, most African countries could not honour their commitment to the guiding principles of self sustaining development processes and collective self reliance underlying the strategy of Monrovia and the Lagos Plan of Action. They were compelled to resort to international financing institutions such as the International Monetary Fund (IMF) and the World Bank. Conditionalities governing loans from such institutions have generally resulted in the adoption of trade-related adjustment programmes which have not always been in line with the overall economic policies of countries undergoing such programmes.

6. The externally induced adjustment programmes including those sponsored by the IMF invariably call for the:

(i) liberalization of external trade and payments including the removal of protectionist instruments (i.e. foreign exchange control, import licensing and control etc...),

(ii) privatization of productive sectors and the abolition of restrictive measures governing the activities of foreign capital (foreign and transnational corporations) including the transfer of profits,

(iii) devaluation of national currencies;

(iv) drastic reduction of state subsidies for food and social services;

(v) adoption of budgetary policies and fiscal incentives in favour of business enterprises (the most important of which are foreign firms). Reduction of direct and indirect taxes, extensively liberal investment codes and

(vi) freezing of wages and their maintaining at low levels by governments.1/

7. For those countries which adopted such policies the externally induced adjustment programmes resulted in the following: First, there was an apparent destruction of efforts to build up and strengthen national public and private productive and trading enterprises. Sub-enterprises were unable to compete in an open market with transnational corporations and other foreign firms of developed countries. This was accompanied by the stagnation and drop in production intended for domestic consumption, in particular food production while capital intensive industrial and service output for mostly foreign

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1/ See Folker Frobel, Jurgen Heinzicches, OTTO Krlye in "Wege ans der Wirtschafts Krise? In Physik, Philosophie and Politik Translated by the United Nations University as "Dead end-Western economic responses to the global economic crisis" (Development as Social Transformation - 4.NU Newsletter).

markets controlled by Transnational Corporations (TNC's) was given priority and increased. As a result of this there was an imbalance between local resource based production intended for national needs and extroverted production to the detriment of output for domestic and regional markets.

8. Other equally disturbing features were the destruction of the rural subsistance economy by capital intensive export-oriented agriculturual enterprises which will increase the emigration from rural areas to urban areas of the youngest productive agents 2/. The immediate obvious consequences of this is the countries' increased dependance on imports in particular of foods and a huge external indebtedness and the fact that in African countries, where there is no tradition of entrepreneurship and where domestic private capital is rather scanty the privatization of the economies will increase foreign firms and TNC's control, which is detrimental to any national attempt to build up self reliant economies. Countries that have carried out IMF related adjustment programmes and those which are currently implementing such programmes have clearly abandoned the basic and crucial principles of the Monrovia Strategy and the Lagos Plan of Action.

9. In the next section of this paper, we will relate certain policy assumptions underlying the externally induced adjustment programmes to Africa's trade development needs.

III. CONSTRAINTS AND OPPORTUNITIES OF AFRICA'S TRADE WITHIN THE CONTEXT OF STRUCTURAL ADJUSTMENT

A. The Externally Induced Adjustment Policies

(i) Domestic Trade

10. This is the mainstay of any endogeneous development approach. The rationalization and development of domestic trade requires the adoption of sound inward [illegible] production policies in order to establish and develop productive bases that would help meet domestic trade trends that are governed by two dysmetric factors. On the one hand, a very narrow production base that is qualitatively and quantitatively unable to cater for local needs, ("Africa Produces what it doesn't consume and consumes what it doesn't produce"). On the other hand, trading networks that are externally biaised, mainly because they are integrated with those of developed countries in the North. This situation can only be exacerbated by policy measures and instruments partaking in externally induced adjustment strategies. Strategies that have actually led to the weakening and destruction of native public and private enterprises or to the foiling of efforts to build up and strengthen local productive and trading organizations. Moreover production that was intended for domestic consumption, in particular agricultural production including food have stagnated and in most cases declined.

2/ See Ernest Feder in "Perverse Development" (Quezon City: Foundation for nationalist studies 1983), see also Hugo Radice, International Firms and Modern Imperialism, Penguin Books.

11. African countries' already excessive dependance on imports (including food imports) has increased and will be relentlessly increasing if changes in current policies are not undertaken. The rationalization and development of domestic markets and domestic trade through the increase of local output in those commodities locally consumed and the rationalization and expansion of domestic distribution networks, as advocated in the Lagos Plan of Action, are not likely to take place under such circumstances. In most African countries undergoing externally induced adjustment programmes, recessionary trends have emerged with the adoption and implementation of policies advocating the tightening of credit that resulted in the squeeze of production, an increase in unemployment, a decrease in investments and in losses of incomes.

12. Thus all the factors whose development is necessary for effective domestic trade to take place have been negatively curbed and the already narrow national markets have shrunk further. The dynamics of markets in general and in particular domestic markets, are a central feature in any development process because they determine production. What should be produced and how it should be produced are decisions that are predicated on this also. Hence the level of investments, productive activities and in the final analysis a country's potential for growth are closely related to these developments. Narrow and weak domestic markets will therefore inhibit self reliant, self sustaining and internally generated development processes.

(b) External Trade

13. The externally induced orthodox adjustment programmes invariably call, inter alia, for:

(i) the liberalization of external trade and payments,

(ii) the promotion and development of production for the increase of exports to world markets to generate incomes for the ultimate financing of development activities. The immediate increase in output for export is likely to be achieved in the primary commodities sector.

14. This external trade development strategy has not taken into account recent evolutions in the world markets. For example in the case of Primary Commodities, there has been:

(i) a long term decline in the share of primary commodities in world trade due not only to recessions in the industrialized countries but also to the increasing penetration of the world market by substitutes and technological innovations allowing significant savings in the processing raw materials;

(ii) a decrease of world demand of primary commodities following industrialized countries' decisions to exploit strategic commodities in existence in their own territories for their own needs and for exports to other developed countries (Britain's oil, USSR gaz etc...)

(iii) the fact that developing countries including African countries are now net importers of a wide range of raw materials and intermediate inputs to feed their industries;

(iv) price fluctuations in the world market which have been heavily against export of primary commodities especially those from Africa.

15. Turning to export prospects for manufactured goods by the African region, there are signs to indicate whether one can expect much insignificant chance for Africa as a producer of such goods. There is also a severe and at times automatic restriction that closes the markets of developed countries to products from other developing countries in general and Africa in particular. Products most affected include textiles, beverages and canned food and the list could be extended to many other non-primary items. A third factor is the development of new techniques in the electronics industry and increasingly inexpensive automation within the context of the microelectronic revolutions which has increasingly put African out of the world market of a whole range of manufactured goods by reducing the cost advantages of manufacturing industries in African countries.

16. Looked at from a different angle the picture is no different from the above: African countries are still victims of the secular deterioration of the terms of trade. 3/ The structure of production and marketing enables the developed countries to retain as much as 80 per cent of retail prices of finished products. It is estimated that share of retail prices of final products accruing to producers of raw materials range from less than 5 per cent for tobacco, 12 per cent for bananas, 20 to 25 per cent for hides and skins and between 3 to 5 per cent for cotton 4/.

17. It is therefore increasingly obvious that the externally induced orthodox structural adjustment policies (including those advocated by the IMF) would result in maintaining Africa in the situation of over-dependence on international economic relations including foreign trade with developed market economies over which African countries would have no control.

18. Moreover the all pervasive liberalization policies including the liberalization of trade will further inhibit Africa's export potentials by weakening and sometimes destroying the emerging native productive and trading enterprises, victims of the transnational corporations' unfair competition. While exports tend to decline, imports increase which will aggravate deficits of balances of trade of African countries.

3/ See Prebisch, The economic development of Latin America and its principal problem, 1950.

4/ UNCTAD, Marketing and distribution of primary commodities: areas for further international cooperation (TD/229/SUPS)

19. The excessively orientated trade patterns (in most African countries the total of exports and imports represent more than 100 per cent of GDP) have excessively opened up national economies in the context of unequal competition detrimental to their endogenous development needs and in glaring contradiction with self reliant, self sustaining and internally generated development strategies underlying the Lagos Plan of Action.

(c) The issues of market distortions in Africa's Trade

20. One of the misconceptions in Africa's development policies is the absence of a clear linkage between production and marketing. We have indicated earlier how important markets are in any development process. The stress should therefore be put on the fact that markets are the major constraints in the economy of any country. 5/ The dynamics of markets are essential in the developed processes in that they determine production, investments and levels of cost and hence prices. Consideration should also be given to the large number of traditional local markets within any given single market, their links with advanced industrial economies, their dynamics and how these factors will affect efforts to combine, national into sub-regional and regional markets.

21. The linkages of African national markets with those of developed industrialized countries is mainly through the existence of growth poles within areas of extractive industries (oil and other minerals) in some African countries, these growth poles and the absence of adequate income distribution policies have led to the emergence of demand patterns emphasizing the import of non essential food items and luxury goods and the drain of foreign exchange to pay such imports in the detriment of local production and domestic trade. This is further exacerbated by modern communication and the uncontrolled use by TNCs of modern sophisticated marketing techniques such as mass advertising, promotion of brand names, consumer credit, market research, which help in creaming off high income level markets both nationally and sub-regionally, leaving little room for indigenous traders to flourish.

22. As a result of the current pattern, markets are characterized by two factors, (a) African markets being dominated and manipulated by transnational corporations and foreign firms and African countries becoming more dependant on imports of manufactured goods and technology as a result of deliberate differentiation of products 6/ (b) the African industrial sector, based as it is on import substitution is more narrowly specialized, more import intensive and less capable of developing backward linkages.

5/ See M. L. Jhinchan in The Economics of Development Planning, Vikas Publishing U.P., India (13th Edition)

6/ Radice op cit, see also report and papers of the Round Table on the role of TNCs in the Latin American Integration Process Organized by UNCTAD and UNCTC in 1978.

23. As a whole, externally induced structural adjustment programmes have been detrimental to the development of Africa's domestic trade and to its external trade relations. The already excessive extroversion of African economies has been exacerbated further. Production for local needs and hence local markets has further declined with the recessionary trends emerging from the squeeze of demand through credit tightening policies. The emphasis put on exports to the world markets to the detriment of local markets has done no better in the context of current trends of primary commodity markets and protective measures applied by developed countries to exports of commodities by developing countries in general and African countries in particular. It was therefore necessary to envisage other alternatives to the current externally induced structural adjustment strategies.

B. The internally induced adjustment strategies including "The African Alternative Framework for Structural Adjustment Programmes (AAF-SAP) 7/

24. These new types of structural adjustment policies re-emphasize the principles of self reliant, self sustaining and internally generated development processes advocated both in the Monrovia Strategy and the Lagos Plan of Action. While local factors of production, local markets and local horizontal distribution channels are privileged, external factors are not neglected either but they are deemed to play a supplementary rather than a central role in the development process. The latter's development is envisaged both through the diversification of commodities being traded and the diversification of trade directions (markets) with a view to mitigating Africa's excessively biased over dependence on the developed market economies in the west as well as improving the bargaining position in world markets. Implications of such strategies are:

7/ E/ECA/CM15/6/Rev. 3 "African Alternative Framework for Structural Adjustment Programmes for Socio-economic Recovery and Transformation"

(a) In the area of domestic trade

25. Policies in this area should put emphasis on (i) the widening of production bases for domestic consumption and the effective expansion of production of essential goods including food items to meet local demands. To this effect, selective credit policies and other incentives should boost investments in sectors producing to meet local needs. Efforts should also be deployed to divert consumption patterns from externally produced output to locally produced goods (ii) local horizontal trading and distribution networks should be built up and strengthened integrating urban and rural markets. Priority should be placed on agricultural production in general and mainly food crops, 8/ and hence agro industries to meet local food demand from local production. Industries dealing in leather, textile and garment, pharmaceutical products should be given due consideration in fostering local productive bases for domestic markets.

(b) External trade

26. In view of their debilitating effects, current external trade patterns of African countries emphasizing Africa's over dependance on foreign trade and foreign factors are to be seriously reviewed and re oriented. The classical and neo classical assumption that the export of primary commodities is the engine of growth 9/ should be abandoned. It has become more and more obvious in the light of the recent economic crisis that the impact of external factors on Africa's development is at best negligible and often negative. Cyclical crisis in the developed market economies directly affect African economies and recovery in the former have brought no improvement in Africa's economic performances in the last three years. As should not therefore overemphasize the role of external trade in development processes. Rather it should be viewed as a mere supplementary factor requiring measures to be adopted in order to check imbalances between domestic and external factors of development with a view to: (i) safeguarding domestic input factors (ii) domestic productive and trading enterprises and (iii) domestic markets for local production. As a result of this, the externally induced structural adjustment strategies including SAP, SAF advocate the following measures:

the reduction of Africa's overdependance on imports through restrictive import measures based on essential needs and productive factors (machines, raw materials)

the granting of reference to locally produced goods over imported items of the same type. For this purpose selected local production lines should be protected from unequal and unfair competition.

production bases for exports should be diversified through the processing of available primary commodities into semi finished and finished

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8/ AAF SAP (Doc. E/ECA/CM.15/6/Rev) recommends allocation of 20 to 25% of national budget to the agricultural sector.

9/ See G. Haberler International Economic Development 1959 and A.K. Cairncross Factors in Economic Development

products 10/ and through increased investments in the production of non traditional export items.

Africa's sources of imports and directions of exports should be diversified towards other markets than those of our traditional partners of the developed market economies (African markets, developing countries markets and the socialist countries of Eastern Europe, the newly industrialised countries of South East Asia and China). This would reduce over-dependance on traditional partners and strengthen bargaining positions of African countries.

(c) The urgent task of restructuring of African markets

27. There is an urgent need to undertake a serious analysis of prevailing market mechanisms and marketing practices in each African country taking into account the following: (i) policies and measures to correct the income distribution imbalances should be envisaged and applied; (ii) selective production lines and national public and private enterprises of strategic importance being identified, promoted and duly protected; (iii) discriminatory import programmes by putting emphasis on basic needs, especially food production and capital goods supportive of agricultural rehabilitation and reconstruction; (iv) giving greater attention to domestic markets to ensure that their integration in sub-regional and regional markets will not result in creating expanded markets for transnational corporations; and (v) in view of the narrow national African markets, it is imperative that development strategies be based on enlarged multinational markets (i.e. sub-regional and regional markets). To this end, the establishment of sub-regional common markets, common external tariffs could be accelerated to ensure the necessary protection Africa's productive and marketing enterprises that would have been established to cater for the enlarged sub-regional and regional markets.

28. Under pressure of the current Structural Adjustment Programmes, most African governments have been forced to abandon policies and related measures and recommendations based on the Lagos Treaty and the Lagos Plan of Action. They have nevertheless, gone far in their efforts to build the necessary institutional framework whose primary objective was to sustain their collective efforts towards the implementation of policies for the construction of collectively self reliant and self-sustaining economies. Such institutions are still of a crucial importance for the smooth implementation of AAPCR and the Lagos Plan of Action.

29. In the next section of this paper, these institutions will be reviewed in the light of actions and programmes carried out at the national, sub-regional and regional levels for the implementation of the Lagos Plan of Action. Ways and means of rationalising and strengthening trade promotion institutions for effective changes in Africa's trade.

10/ For this purpose emphasis should be put on Research and Development (R&D) for the identification of new products. Institutions such the Food Technology Research organizations should be built and strengthened.

IV. [illegible]

A. Review of existing trade arrangements

30. The development of intra-African trade as a mainstay of collective self reliance and self sustaining and internally generated development processes is a central feature of the Monrovia Strategy and the Lagos Plan of Action. The expansion of intra-regional trade can only be achieved within the framework of enlarged subregional markets. The tariff and non tariff barriers currently protecting the narrow national markets of African countries should be gradually removed. The increased awareness of African governments led to the adoption of related recommendations in the Lagos Plan of Action calling for the establishment and strengthening of multi-purpose subregional groupings with inter alia market integration schemes. In this regard, the establishment of the economic Community of West African States (ECOWAS) was followed by similar experiences in Eastern and Southern Africa with the creation of the Preferential Trade Area (PTA) associating countries in the subregion. In central Africa also is the establishment of the Economic Community of Central African States (CEEAC). All these subgroupings provide for the gradual elimination of tariff and non tariff barriers and the effective establishment of subregional common markets that would, at a later stage, come into a regional common market. Efforts are currently being deployed by north African countries for the establishment of their Preferential Trade Area along similar lines. Treaties of the various subregional groupings include provisions not only for trade liberalization but also for transit cooperation in industrial and agricultural development, payments, transport and communications.

31. These subregional groupings have evolved since their establishment and have reached various stages in the effective implementation of their trade liberalization programmes.

(a) In West Africa, difficulties have emerged with the attempts to rationalize and harmonize programmes of the very many subregional organizations (mainly ECOWAS, CEAO and the Mano River Union). Progress in this has been very little.

(b) In Central Africa, CEEAC has effectively established harmonization with UDEAC and CEPGL is still to take place.

(c) In Eastern and Southern Africa, gradual elimination of tariff and non-tariff barriers on products of the common list is progressing but the target date of 1992 for total elimination of such barriers could not be complied with; complete elimination of tariff barriers is now expected to take place beyond the year 2000.

(d) In North Africa, the initial inter-governmental negotiations are still to begin but meantime some of the countries within the subregion are associated in the Maghreb Arab Union (UMA) whose objectives are quite similar to those of existing African Preferential Trade Areas.

products 10/ and through increased investments in the production of non traditional export items.

Africa's sources of imports and directions of exports should be diversified towards other markets than those of our traditional partners of the developed market economies (African markets, developing countries markets and the socialist countries of Eastern Europe, the newly industrialized countries of South East Asia and China). This would reduce over-dependence on traditional partners and strengthen bargaining positions of African countries.

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28. Under pressure of the current structural adjustment programmes, most African governments have been forced to abandon policies and related measures and recommendations based on the approach contained in the Lagos Plan of Action. They have nevertheless kept for the time being the necessary institutional framework whose primary objective was to sustain their collective efforts towards the implementation of policies for the construction of collectively self reliant and self sustaining economies. Such institutions are still of a crucial importance for the smooth implementation of ASAP and the Lagos Plan of Action.

29. In the next section of this paper, these institutions will be reviewed in the light of actions and programmes carried out at the national, subregional and regional levels for the implementation of the Lagos Plan of Action. Ways and means of rationalizing and strengthening trade promotion institutions for effective changes in Africa's trade.

10/ For this purpose emphasis should be put on Research and Development (R&D) for the identification of new products. Institutions such the Food Technology Research organizations should be built and strengthened.

IV. INSTITUTIONAL MECHANISMS FOR TRADE DEVELOPMENT

A. Review of existing trade arrangements

30. The development of intra-African trade as a catalyst of collective self-reliance and self-sustaining and internally generated development processes is a central feature of the Monrovia Strategy and the Lagos Plan of Action. The expansion of intra-regional trade can only be achieved within the framework of enlarged subregional markets. The tariff and non-tariff barriers currently protecting the narrow national markets of African countries should be gradually removed. The increased awareness of African governments led to the adoption of related recommendations in the Lagos Plan of Action calling for the establishment and strengthening of multi-purpose subregional groupings with, inter alia, market integration schemes. In this regard, the establishment of the Economic Community of West African States (ECOWAS) was followed by similar experiences in Eastern and Southern Africa with the creation of the Preferential Trade Area (PTA) associating countries in the subregion. In central Africa also is the establishment of the Economic Community of Central African States (CEEAC). All these subgroupings provide for the gradual elimination of tariff and non-tariff barriers and the effective establishment of subregional common markets that would, at a later stage, come into a regional common market. Efforts are currently being developed by north African countries for the establishment of their Preferential Trade Area along similar lines. Treaties of the various subregional groupings include provisions not only for trade liberalization but also for transit, cooperation in industrial and agricultural development, payments, transport and communications.

31. These subregional groupings have evolved since their establishment and have reached various stages in the effective implementation of their trade liberalization programmes.

(a) In West Africa, difficulties have emerged with the attempts to rationalize and harmonize programmes of the very many subregional organizations (mainly ECOWAS, CEAO and the Mano River Union). Progress in this has been very little.

(b) In Central Africa, CEEAC has effectively established. Harmonization with UDEAC and CEPGL is still to take place.

(c) In Eastern and Southern Africa, gradual elimination of tariff and non-tariff barriers on products of the common list is progressing but the target date of 1992 for total elimination of such barriers could not be complied with. Complete elimination of tariff barriers is now expected to take place beyond the year 2000.

(d) In North Africa, the initial inter-governmental negotiations are still to begin but meantime some of the countries within the subregion are associated in the Maghreb Arab Union (UMA) whose objectives are quite similar to those of existing African preferential Trade Areas.

32. Secretariats of these groupings incorporate structural arrangements intended to accomodate a trade promtion unit catering for market research training in trade promotion and marketing techniques, trade fairs and business tours etc.

33. North Africa excluded one may say that the establishment of Preferential Trade Areas has been effectively completed within the timeframe agreed upon in the Final act of Lagos. The institutional frameworks are in existense in west, central eastern and southern Africa. Filling the frameworks is the area where delays and setbacks have been registered here and there. The trade liberalization programmes are lagging far behind schedules and this may have a delaying impact on the establishment of African common markets in the 1990's as recommended in the Final Act of Lagos.

34. Looking into the status of existing PTAs, one may find the target date of the year 2000 as unrealistic with regard to the effective establishment of the African Economic Community. delays already registered in the preparatory work for the establishment of the community are tangible signs that the latter might not be in existense by the year 2000, unless it is created notwithstanding the status and actual situations of subregional trading arrangements (TAs).

35. The consolidation of PTAs should be a priority task in the early 1990's. This will imply among others, accelerating the pace of trade liberalization and complementing the list with some strategic commodities such as food items, raw materials and intermediate inputs supplied, inter alia, to PTA multinational enterprises. Intergovernmental trade negotiations for mutual tariff concessions have always been rather difficult for individual national interests and differences in levels of development among negotiating countries are the usual deadlocks to any progress in tariff concessions. Thus, to smooth such negotiations and to accelerate their pace, mechanisms such as joint production and joint marketing enterprises should be rapidly established to cristalize narrow national interests and differences into community holdings and common interests to which each and every one would be ready to grant concessions for chances or benefits to accrue to everyone are greater. This would therefore link trade liberalization to the development of joint production and marketing enterprises one side and on the other side trade with production sharing or concessions are reached with regard to input factors of interest for productive enterprises.

B. Trade facilitation mechanisms

(a) Trade financing

36. Trade financing is one of the most critical aspects of trade promotion policies. Trade financing is nevertheless an area of low priority by African governments. Trade financing windows were virtually non existant in regional and subregional development banks including the African Development Bank (ADB). Attempts to accomodate trade financing in such banks are quite recent. The ADB started limited trade financing operations in the last two to three years. Subregional development financing institutions such as the West African Development Bank (BOAD), the Central African Development Bank (BDEAC) and the PTA Trade and

Development Bank for Eastern and Southern African States have rarely covered trade transactions. In addition, the lines of banks' operations are restricted to member States of the Trade Zone and therefore have a limited scope in dealing with non-members of their groupings. This leaves us with only one development bank of a subregional magnitude with a trade financing window, namely the PTA Trade and Development Bank.

37. The establishment of the ADB sponsored export and import bank which will function as an autonomous trade financing institution should be accelerated and fully fledged trade financing windows be opened within ECOWAS and CEAO. The latter should be re-structured and their membership and services extended to the entire West and Central African subregions respectively. The same type of banks should be established in North Africa.

38. Another impediment to the development of intra-African trade is the scarcity of foreign exchange to finance trade transactions. In order to reduce Africa's overdependance on foreign resources for the financing of intra-regional trade, Clearing and Payments mechanisms have been established in all subregions except North Africa. The objective is to form an African Payments Union at a latter stage. Initially, the subregional clearing houses might be coordinated at a payment window within the projected African Monetary Fund. The North African Clearing House is to be rapidly established to cover intra-North African Payments. Meantime the functioning of the existing clearing and payment arrangements should be assessed with a view to finding ways and means of increasing the volume of transactions through those mechanisms. One of the immediate actions that could be envisaged to improve the functioning of existing African Clearing Houses could be (i) the immediate channeling of all public transactions (through state trading organizations and other state agencies) through those mechanisms; (ii) incentives and/or legislative provisions should be applied to urge commercial banks to use clearing houses for intra-regional payments. Forwarding exchanges when established could also use these clearing houses.

(b) Trade promotion institutions

39. National trade promotion centres are in existence in most African countries but they are not functioning properly. A common problem encountered by these centres is the lack of resources for the funding their promotional activities. Extra budgetary resources from UNDP and/or other donor agencies do not provide long term solutions. It is therefore recommended that levies amounting to 0.50% of total import taxes be allotted to the financing of trade promotion activities at the national level and for participation in Subregional Trade Promotion Institutions. Activities of subregional trade promotion units within subregional trade promotion units within subregional groupings are not different either because their activities are hampered by repeated cash crisis.

40. At the regional level, Member States have established the African Association of Trade Promotion Organization (AATPO) whose primary objective is to provide technical support for its members and coordinate their trade promotion, information, marketing and market research activities. This organization is currently under a dire financial crisis to the extent that salaries of staff could not be paid

for months. Its structuring, re-alignment, the objectives and financial endowment of AATPO are urgent tasks. AATPO should move from the classical type of promotional activities (information, training, research) to more operational activities by acting as a proxy in identifying intra regional trade potentials at the micro level (entreprises) and ensuring effective transactions. AATPO would then charge fees (commissions) based on turnovers generated through it this would help it be self financing. For AATPO to undertake such changes member States should ensure the initial funding of the new AATPO by covering its operating costs for a period of one year.

41. The Federation of African Chambers of Commerce was founded in 1964 with a view to strengthening national chambers of commerce putting emphasis on their new role as trade promotion organizations and investment promotion centres. The Federation was supposed to promote cooperation between national chambers of commerce and their members in concrete ventures and to support governments' efforts in creating trade facilitation mechanisms and instruments. The Federation is facing two types of problems:

(i) the Arab Republic of Egypt does not seem to hold to its commitments as a host country of the Federation. Final negotiations for the signing of the headquarters agreement were long and fruitless in spite of the Federation's tremendous concessions on facilities and immunities subscribed by Egypt when it applied for the seating of the headquarters.

(ii) Financial contributions received are at too low a level to enable the secretariat start working. It is not incorrect to state here that one root cause is partly due to the attitude of the host government.

(iii) ECA's interim secretariat has taken steps to start carrying some of the activities of the Federation (including the preparation of a regional Trade Directory) but the functioning of the Federation is a matter which only the members themselves can bring about by reviewing what action needs taking through genuine commitment beyond the adoption of the original resolution.

(c) Operational institutions

42. These are types of organizations that ought to be directly involved in concrete trade transactions. Recommendations in the Lagos Plan of Action focussed on the following:

(d) Agricultural commodity exchanges

43. The increase in production expected under the Lagos Plan of Action as well as through rehabilitation and reconstruction of agro industries would entail higher demand for agricultural raw materials. Agricultural commodity exchanges are appropriate organizations for the promotion and intensification of exchanges in this area specially in situations characterized by shortages of foreign exchange for direct trading transactions. Activities of ECA on this came to a standstill with the lack of interest shown by member States after the completion of a feasibility study for Eastern and Southern African countries. It is has perhaps come to reconsider prospects for the establishment of such mechanisms

(e) Multinational production and marketing enterprises

44. Pre-feasibility studies and feasibility studies should be carried out with a view to determining

(a) areas where such enterprises are envisageable

(b) modalities for their effective establishment

(c) conditions under which such organizations would be profitable

45. This type of organizations are urgently needed in that they could ease negotiations for tariff and non tariff concessions on commodities of interest for them by helping overcome narrow national interests, which are, at present one of the main deadlocks to trade liberalization with subregional groupings.

V. CONCLUSION

46. It is indeed a very disturbing matter that 10 years after the adoption of the Lagos Plan of Action for the implementation of the Monrovia Strategy most African countries seem to have failed to devise and adopt trade policies for self reliant and self sustaining development. Instead, under pressure of the crisis, they have resorted to conservative recovery plans and programmes many of which make no reference to the Lagos Plan of Action. Over and above those plans rarely include trade patterns based on the export of primary commodities.

47. As indicated earlier in this paper, externally induced adjustment programmes have been largely detrimental to Africa's growth prospects. In fact the measures recommended within the framework of the current traditional adjustment programmes do not take into account the declining trends of the world market of commodities on which most African countries depend for export earnings. By their very nature, they do not take into account the dynamics of domestic markets without which, internally - generated development processes cannot take place. African countries continued to be overdependant on external factors detrimental to their economies, the contribution of such factors to Africa's development is largely negligible. Some form of "delinking" was and is therefore still necessary.

48. What this paper advocates is internally [illegible] that put emphasis on structural transformation and long term development processes. In particular enlarging the domestic markets and greater exploitation of subregional and regional African markets are the mainstay for a genuine development. Hence the importance of understanding domestic market mechanisms and dynamics for they determine production, what should be produced, how it should be produced and hence the level of investments and activities of enterprises. Markets could [illegible] development processes.